

**Before the
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

In the Matter of)	
)	
the Merger of the)	Docket No. _____
Parent Corporations of)	
Qwest Communications Corporation,)	
LCI International Telecom Corp.,)	
USLD Communications, Inc.,)	
Phoenix Network, Inc. and)	
U S WEST Communications, Inc.)	

**DIRECT TESTIMONY OF PAUL F. GALLANT
ON BEHALF OF
QWEST COMMUNICATIONS CORPORATION,
USLD COMMUNICATIONS, INC.,
LCI INTERNATIONAL TELECOM CORP. AND
PHOENIX NETWORK, INC.**

AUGUST 31, 1999

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH QWEST COMMUNICATIONS INTERNATIONAL INC.

A. My name is Paul F. Gallant. My business address is Qwest Communications International Inc., 4250 North Fairfax Drive, Arlington, VA 22203. My title is Senior Policy Counsel for Qwest Communications International Inc. ("Qwest Inc.").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I am a graduate of Georgetown University where I received a Bachelor of Arts degree in political science in 1988. I also received a Juris Doctorate from Catholic University School of Law in 1993. I am admitted to the bar in Rhode Island and the District of Columbia.

Prior to joining Qwest Inc. in May of this year, I held several positions at the Federal Communications Commission. From November 1997 to April 1999, I served as legal advisor to Commissioner Gloria Tristani, whom I advised on telecommunications policy issues, including access charges, Section 271, universal service and the Internet. From May to November 1997, I served in the same position for Commissioner James Quello. As Legal Counsel to the Common Carrier Bureau Chief from December 1996 to May 1997, I advised the bureau chief on policy and internal process matters. I also served as a staff attorney in the Common Carrier Bureau Policy Division (October 1996 to December 1996), the Office of the General Counsel Competition Division (March 1994 to October 1996), and the Cable Services Bureau (October 1993 to March 1994).

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1 **Q. WHAT ARE THE DUTIES OF YOUR CURRENT JOB?**

2 **A.** As Senior Policy Counsel, I develop policy positions in conjunction with Qwest
3 business units and advocate those positions before the FCC and state regulatory
4 commissions.

5 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

6 **A.** The purpose of my statement is twofold. First, I will furnish the Washington
7 Utilities and Transportation Commission ("Commission") with background
8 information about pre-merger Qwest Inc., and its operations, services and facilities,
9 as well as provide details regarding the proposed merger of Qwest Inc. and
10 U S WEST, Inc. ("U S WEST, Inc.").

11 Second, my statement will describe for the Commission how the merger will
12 serve the public interest by producing substantial benefits for the combined
13 company's current and future customers in Washington. Once the merger is
14 complete, the combined company will remain headquartered in Denver and will
15 continue to be particularly focused on the needs of all residential and business
16 customers throughout the 14-state U S WEST, Inc. region. Post-merger Qwest Inc.
17 will be committed to all U S WEST Communications, Inc. ("U S WEST") customers,
18 urban and rural, business and residential. The merger will improve and enhance
19 services for consumers as telecommunications operations are revolutionized by the
20 Internet and advances in technology. The sooner the merger is approved, the sooner
21 the consumers of Washington can begin reaping the rewards of the greater
22 competition and innovation offered by the combined company.

23 **Q. PLEASE DESCRIBE THE CORPORATE STRUCTURE OF PRE-MERGER**
24 **QWEST INC.**

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1 A. Qwest Inc. is a Delaware corporation with its principal office and place of business
2 located at 555 Seventeenth Street, Denver, Colorado 80202. It is publicly traded on
3 the NASDAQ stock exchange under the symbol "QWST." Approximately 39 percent
4 of the common stock of Qwest Inc. is directly or indirectly owned by Anschutz
5 Corporation, a Delaware corporation all of whose stock is owned and voted
6 personally by Philip F. Anschutz, who also is the Chairman of the Board of Qwest
7 Inc.

8 Q. PLEASE BRIEFLY DESCRIBE PRE-MERGER QWEST INC.'S
9 OPERATIONS.

10 A. Currently, Qwest Inc. provides Internet-based telecommunications services to more
11 than 4 million customers worldwide. Qwest's four subsidiaries — Qwest
12 Communications Corporation ("QCC"), LCI International Telecom Corp. (d/b/a
13 Qwest Communications Services) ("LCI"), USLD Communications, Inc. ("USLD")
14 and Phoenix Network, Inc. ("Phoenix") (collectively, "Qwest") — are authorized to
15 provide intrastate telecommunications services in Washington. Through these
16 subsidiaries, pre-merger Qwest Inc. provides long distance and operator services on
17 both a facilities-based and resale basis, and serves more than 198,000 residential
18 customers and more than 3,000 business customers within the state.

19 Qwest is authorized to provide intrastate service in 47 other states and the
20 District of Columbia. QCC, LCI and USLD also are authorized by the Federal
21 Communications Commission ("FCC") to provide interstate telecommunications
22 services, including international telecommunications services, as non-dominant
23 carriers.

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1 Qwest Inc. recently completed construction of a nationwide interexchange
2 fiber optic network built with the industry's most advanced technologies. It offers
3 10 gigabit, OC-192 speed and is constructed on a "self-healing" SONET ring with 2.4
4 gigabit (OC-48) Internet Protocol architecture. The Qwest network reaches 18,500
5 miles, connects to 150 cities across the United States, and extends 1,400 miles into
6 Mexico. An additional 315 miles will be added by the end of 1999. Two segments of
7 the network begin in Seattle, and, taking divergent routes, run south to Portland.
8 Oregon. Pre-merger Qwest Inc. also is part owner of the newest digital Atlantic
9 Ocean cable, TAT-14, providing connectivity to Europe. There the company has
10 joined with the Dutch telecommunications company KPN in a joint venture,
11 KPNQwest, that is building an 8,100-mile European network that will connect 39
12 cities. In the Asia-Pacific region, the company is part of a consortium building a
13 13,125-mile cable from California to Japan and the Pacific Rim. That route will be
14 completed in the second quarter of the year 2000.

15 In addition, pre-merger Qwest Inc., directly and indirectly through
16 wholly-owned subsidiaries both in the United States and worldwide, constructs and
17 installs fiber optic communications systems for other telecommunications
18 companies and provides multimedia communications and Internet services to
19 interexchange carriers and other communications entities, businesses and
20 consumers.

21 **II. THE QWEST INC. - U S WEST, INC. MERGER**

22 **Q. PLEASE DESCRIBE THE PROPOSED MERGER BETWEEN QWEST INC.**
23 **AND U S WEST, INC.**

1 A. On July 18, 1999, Qwest Inc. and U S WEST, Inc. ("U S WEST, Inc.") entered into
2 an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which U S
3 WEST, Inc. will merge with and into Qwest Inc. The boards of directors of both
4 Qwest Inc. and U S WEST, Inc. have approved the Merger Agreement. Subject to
5 shareholder, regulatory, and other approvals as set forth in the Merger Agreement,
6 the anticipated closing date is July 30, 2000.

7 In order to effectuate the merger, Qwest Inc. will issue shares of its common
8 stock having a value of \$69.00 for each share of U S WEST, Inc. common stock,
9 subject to a "collar" on Qwest Inc.'s average stock price between \$28.26 and \$39.90
10 per share. The number of Qwest Inc. shares to be exchanged for each U S WEST,
11 Inc. share will be determined by dividing \$69.00 by a 15-day weighted average of
12 trading prices for Qwest Inc. common stock over a 30-day measurement period
13 ending three days prior to closing, but will not be less than 1.72932 shares (if Qwest
14 Inc.'s average stock price exceeds \$39.90 per share) or more than 2.44161 shares (if
15 Qwest Inc.'s average stock price is less than \$28.26 per share). If necessary, the
16 obligation under the "collar" may be satisfied in whole or in part with cash if Qwest
17 Inc.'s average stock price is below \$38.70 per share.

18 Under the terms of the Merger Agreement, upon closing, U S WEST, Inc. will
19 be merged into Qwest Inc. and the separate corporate existence of U S WEST, Inc.
20 will then cease. The direct and indirect wholly-owned subsidiaries of pre-merger
21 Qwest Inc. and U S WEST, Inc. that hold operating certificates or other
22 authorizations will survive as direct or indirect wholly-owned subsidiaries of the
23 merged company.

1 **Q. WILL THE MERGER INVOLVE THE ASSIGNMENT OF AUTHORIZATIONS**
2 **OR LICENSES?**

3 **A.** No. The merger does not involve any assignment of the authorizations or licenses of
4 either Qwest or U S WEST, Inc.'s subsidiary, U S WEST, or any change in their
5 respective operating subsidiaries that hold such authorizations or licenses. The
6 same companies will continue to provide service to the public. Thus,
7 administratively, the merger will be transparent to Qwest's and U S WEST's
8 respective customers, and neither will experience any degradation of services as a
9 result of the merger.

10 **Q. PLEASE DISCUSS THE MANAGEMENT OF THE POST-MERGER**
11 **COMPANY.**

12 **A.** Upon closing of the merger, Philip F. Anschutz, the current Chairman of the Board
13 of pre-merger Qwest Inc., will become the Non-Executive Chairman of the combined
14 company. Joseph P. Nacchio will continue as the Chairman and Chief Executive
15 Officer, and Solomon D. Trujillo, currently the Chairman and Chief Executive
16 Officer of U S WEST, Inc., will be a Chairman of Qwest Inc. and President of the
17 broadband local and wireless business of Qwest Inc. The Board of Directors of the
18 reconstituted company will consist of 14 members including Messrs. Anschutz,
19 Nacchio and Trujillo, with a total of seven members to be designated by each of pre-
20 merger Qwest Inc. and U S WEST, Inc. Additionally, the companies' designees on
21 the Board of Directors will be represented equally on all Board committees.

22 Post-merger Qwest Inc. also will establish an Office of the Chairman whose
23 members will be Messrs. Anschutz, Nacchio and Trujillo. The Office of the
24 Chairman will act by majority vote and will have final authority with respect to

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1 enumerated corporate actions, including, among others, material acquisitions and
2 dispositions, the allocation of capital resources, termination of certain senior
3 executives and the setting of general corporate strategy.

4 The members of the Office of the Chairman will jointly appoint certain
5 designated executive positions within Qwest Inc. For a period of one year following
6 closing, the twenty most senior policy-making executives of post-merger Qwest Inc.
7 will be drawn in substantially equal numbers from among the officers of pre-merger
8 Qwest Inc. and U S WEST, Inc., and each company will be proportionally
9 represented at each level of senior management.

10 The combined company will employ approximately 64,000 people. Its
11 headquarters will be located in the U S WEST, Inc. headquarters building in
12 downtown Denver. It will continue to be listed on the Nasdaq National Market
13 under the existing trading symbol "QWST."

14 **Q. HOW WILL POST-MERGER QWEST INC. SATISFY THE REQUIREMENTS**
15 **OF SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996?**

16 **A.** In order to satisfy the Telecommunications Act of 1996 ("1996 Act"), the combined
17 Qwest Inc. will be required to divest itself of interLATA services it currently offers
18 in the U S WEST, Inc. region. Qwest Inc. is now in the process of identifying
19 affected services and making arrangements to divest those services and customer
20 accounts. Minimizing any potential customer confusion or disruption is integral to
21 the company's divestiture decision-making process, and it will comply with any
22 applicable Commission requirements with respect to any changes to customer
23 accounts. Business incentives of the combined company will provide impetus for
24 compliance with the prerequisites to interLATA entry as expeditiously as possible.

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1 Q. WHY DID QWEST INC. DECIDE TO MERGE WITH U S WEST, INC.?

2 A. We anticipate the merger with U S WEST, Inc. will create a new kind of company
3 for a new era of opportunity. Pre-merger Qwest Inc. has used acquisitions,
4 alliances, joint ventures and investments to move farther and faster in two years
5 than many companies hope to in ten. Alliances with Microsoft and Netacape are
6 bringing new products to customers quickly and efficiently. Acquisitions of such
7 companies as Icon CMT and LCI have built our infrastructure, reach and range of
8 services. Joint ventures like KPNQwest and relationships with companies like
9 Covad and Rhythms NetConnections are expanding the reach of the Qwest network.
10 The merger with U S WEST, Inc. is the latest strategic move to further our three-
11 part formula for growth: employ the most advanced technology; always be agile and
12 quick to market; and maintain a fanatical focus on our customers.

13 Qwest Inc. is not alone in its strategy of building corporate relationships to
14 further its objectives. The trend in the telecommunications industry is to achieve
15 greater market flexibility and to augment market share through mergers, joint
16 ventures and other alliances.

17 Qwest Inc. is seeking a partner with greater experience and a customer base
18 in the local exchange services market. As an incumbent local exchange carrier also
19 based in the West, U S WEST, Inc. provided an obvious match. Pre-merger Qwest
20 Inc. offers U S WEST, Inc. — and therefore U S WEST, Inc. customers — access to
21 innovative services, a worldwide high quality network, and increased product
22 options. Importantly, this merger is not a combination of two incumbent local
23 telephone companies, and it is not increasing the number of local customers under

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1 one roof. This merger is procompetitive, placing the post-merger Qwest Inc. in a
2 better position to compete against larger combinations both in and out of region.

3 **III. THE MERGER WILL SERVE THE PUBLIC INTEREST**

4 **Q. BRIEFLY OUTLINE THE BENEFITS OF THE MERGER TO CONSUMERS.**

5 **A.** The proposed merger of Qwest Inc. and U S WEST, Inc. will bring together our
6 advanced, broadband fiber-optic network and U S WEST, Inc.'s technologically
7 advanced local telecommunications services. Because the two companies offer
8 different services and have different core capabilities, and because overlaps between
9 the services of the two companies are very limited in scope,^{1/} the merger will create
10 a new company with a significantly increased ability to meet the full range of
11 rapidly evolving needs of business and residential telecommunications customers.
12 Pre-merger Qwest Inc. understands the importance of U S WEST's core business,
13 and the company is strongly committed to high-quality local services post-merger.

14 The merger will produce cost savings that will allow the combined company
15 to invest more in new products and improved infrastructure, and consumers will
16 enjoy a greater array of services from one company. Most importantly, the merger
17 will create powerful business incentives for the combined company to obtain
18 Section 271 approval from the FCC in order to re-enter the in-region interLATA
19 market in Washington as soon as possible. As soon as Qwest and U S WEST receive
20 approval for the merger, the combined company can move forward to achieve these
21 goals.

^{1/} The only overlap between the two companies with respect to regulated services is intraLATA toll service.

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1 Post-consummation, Qwest Inc. will be in a strong position to continue the
2 roll-out of new products, such as high-quality broadband services in the U S WEST,
3 Inc. region and throughout the United States. The services offered via the new
4 company's fiber and DSL broadband technology will offer the most substantial and
5 distinctive alternative to broadband service offerings by incumbent cable system
6 operators. In addition, the implementation of the shared growth strategy of each
7 company, including deployment of an Internet Protocol platform, can be expected to
8 continue the roll-out of local broadband connectivity for customers in target market
9 areas in Washington. Rolling out high-speed local access technologies such as DSL
10 requires an aggressive, growth-oriented investment program. The merger will
11 create a forward-looking company with increased access to capital and a substantial
12 broadband focus, thus enabling U S WEST and Qwest to utilize their DSL
13 capabilities to the fullest extent possible to make available these local access
14 alternatives.

15 **Q. WILL THE POST-MERGER QWEST INC. CONTINUE ITS CURRENT JOINT**
16 **BUSINESS VENTURES AND PROJECTS TO ACHIEVE ITS GOAL OF**
17 **PROVIDING CUSTOMERS WITH A FULL RANGE OF QUALITY**
18 **SERVICES?**

19 **A. Yes. We view our efforts to create alliances as a major part of our strategy to**
20 **provide customers access to the latest technologies and to a full range of**
21 **telecommunications services. Subject to compliance with the 1996 Act, the merged**
22 **company will have the ability to provide end-to-end telecommunications services**
23 **over its own network of facilities. U S WEST, Inc. has an established base of 16**
24 **million access lines and the associated customer relationships in a region that**

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1 includes six of the fastest growing metropolitan areas in the United States. We
2 have a state-of-the-art network of fiber optic facilities connecting key cities across
3 the United States, including Seattle. We also have capacity on submarine cables
4 and are developing a fiber optic network in Europe through our joint venture with
5 KPN. Combining these complementary resources will enable the combined
6 company to provide a broad array of local, long distance and international voice and
7 data services with maximum efficiency, which will ultimately benefit consumers
8 through lower prices and greater choices.

9 In addition, to enhance its ability to provide advanced applications and
10 services, the new company will continue to build upon Qwest Inc.'s and U S WEST,
11 Inc.'s existing technology alliances with Cisco, Hewlett-Packard, Microsoft, Oracle,
12 SAP America, Siebel Systems and Sun Microsystems, as well as its strategic
13 investments in Critical Path, BackWeb and Intertainer. The post-merger company
14 will leverage the skill sets and distribution channels Qwest Inc. has acquired
15 through its recently announced joint venture with KPMG, called Qwest
16 Cyber.Solutions, to sell new Internet and Web hosting e-commerce products into
17 U S WEST, Inc.'s business markets.

18 We have a strong commitment to the communities we serve and will
19 continue, as a part of that commitment, to actively participate in the Abilene
20 Network, a project of the University Corporation for Advanced Internet
21 Development, home of Internet2. Developed in partnership with Cisco, Nortel and
22 Indiana University, the Abilene Network provides unsurpassed capabilities in
23 networking and expanded resources for technological innovations related to virtual
24 laboratories, digital libraries and distance education, among other applications.

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1 The Qwest network is used as the platform for this effort. Internet2 is an effort by
2 federal agencies, industry leaders, research centers and more than 140 universities,
3 including the University of Washington and Washington State University, to
4 accelerate the next stage of Internet development to meet emerging needs in higher
5 education. Through this project, pre-merger Qwest Inc. expects to contribute
6 approximately \$4.5 million worth of free circuits (OC-12 and OC-48) this year to the
7 University of Washington, Washington State University, Microsoft Corp. Research
8 Lab, and the National Oceanic and Atmospheric Administration.

9 **Q. WILL THE MERGER HELP INCREASE COMPETITION IN WASHINGTON?**

10 **A.** Definitely. The merger will serve the public interest by providing significant
11 additional incentives for the combined company to encourage local exchange
12 services competition in Washington. The merger reflects a major commitment on
13 the part of pre-merger Qwest Inc. and U S WEST, Inc. to become an end-to-end
14 facilities-based provider of voice, data and integrated services, including in-region
15 interLATA services. However, to comply with the Telecommunications Act of 1996,
16 Qwest must discontinue all interLATA service in the U S WEST, Inc. region, which
17 represents approximately 8 percent of revenues to its parent, Qwest Inc., as
18 projected for fiscal year 2000. It will do so by divesting itself of those services prior
19 to the closing of the proposed merger.

20 To achieve its business objective of providing end-to-end telecommunications
21 services to all customers, both inside and outside the U S WEST, Inc. region, post-
22 merger Qwest Inc. must be able to re-enter the interLATA market within the U S
23 WEST, Inc. region. To effect this strategy and recapture those lost revenues, the
24 combined Qwest Inc. must obtain Section 271 approval. Accordingly, there will be

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1 powerful business incentives for the post-merger Qwest Inc. to obtain Section 271
2 approval from the FCC so that the company can re-enter the in-region interLATA
3 market in Washington as soon as possible.

4 **IV. CONCLUSION**

5 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

6 **A.** The proposed merger will join the market and operational expertise of a local
7 exchange provider with the innovative and dynamic operations of a competitive
8 carrier. Through its subsidiaries, the combined company will remain committed to
9 serving the local customer base while the synergies created by the merger will allow
10 the company to enhance and improve all of the services offered to Washington
11 consumers. Those benefits for current and future customers resulting from the
12 combination of the two companies will be best realized if the merger is allowed to
13 proceed as quickly and smoothly as possible.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, it does.

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

* * * * *

STATE OF VIRGINIA)
)
COUNTY OF ARLINGTON) SS: AFFIDAVIT

I, Paul F. Gallant, being duly sworn, do hereby depose and state that I am Senior Policy Counsel for Qwest Communications International Inc., that the foregoing testimony is true and correct to the best of my knowledge, information, and belief; and that I adopt the foregoing as my sworn testimony in this proceeding.

Paul F. Gallant
Paul F. Gallant
Senior Policy Counsel

Subscribed and sworn to before me this 24th day of August, 1999.

My Commission expires My Commission Expires February 28, 2001

Heather Trepo
Notary Public

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